§ 1.172-6

therein a net operating loss of \$4,700. In 1961 he sustains a net operating loss of \$10,000 in the operation of the business. Under section 172(b)(2), it is determined that the entire amount of each loss, \$4,700 and \$10,000, is a carryback to 1959. In determining the amount of the carryover of the 1961 loss to 1962, the taxable income for 1959 as computed under this paragraph is \$3,870, determined as follows:

Salary Net long-term capital gain	\$5,000 4,000
Total gross income Less: Deduction for carryback of 1960 net oper-	9,000
ating loss	4,700
Adjusted gross income Less: Standard deduction	4,300 430
Taxable income	3,870

- (iii) *Minimum limitation.* The taxable income, as modified under this paragraph, shall in no case be considered less than zero.
- (3) Electing small business corporations. For special rule applicable to corporations which were electing small business corporations under Subchapter S (section 1361 and following), Chapter 1 of the Code, during one or more of the taxable years described in section 172(b)(1), see paragraph (f) of §1.172–1.
- (4) Qualified real estate investment trust. Where a net operating loss is carried over to a qualified taxable year (as defined in §1.172-10(b)) ending after October 4, 1976, the real estate investment trust taxable income (as defined in section 857(b)(2)) shall be used as the "taxable income" for that taxable year to determine, under section 172(b)(2), the balance of the net operating loss available as a carryover to a subsequent taxable year. The real estate investment trust taxable income, however, is computed by applying the rules applicable to corporations in paragraph (a)(2) of this section. Thus, in computing real estate investment trust taxable income for purposes of section 172(b)(2), the net operating loss deduction for the taxable year shall be computed in accordance with paragraph (a)(2)(i) of this section. The principles of this subparagraph may be illustrated by the following examples:

Example 1. Corporation X, a calendar year taxpayer, is formed on January 1, 1977. X incurs a net operating loss of \$100,000 for its taxable year 1977, which under section 172(b)(2), is a carryover to 1978. For 1978 X is

a qualified real estate investment trust (as defined in §1.172-10(b)) and has real estate investment trust taxable income (determined without regard to the deduction for dividends paid or the net operating loss deduction) of \$150,000, all of which consists of ordinary income. X pays dividends in 1978 totaling \$120,000 that qualify for the deduction for dividends paid under section 857(b)(2)(B). The portion of the 1977 net operating loss available as a carryover to 1979 and subsequent vears is \$70,000 (i.e., the excess of the amount of the net operating loss (\$100,000) over the amount of the real estate investment trust taxable income for 1978 (\$30,000), determined by taking into account the deduction for dividends paid allowable under section 857(b)(2)(B) and without taking into account the net operating loss of 1977).

Example 2. (i) Assume the same facts as in Example (1), except that the \$150,000 of real estate investment trust taxable income (determined without the net operating loss deduction or the dividends paid deduction) consists of \$80,000 of ordinary income and \$70,000 of net capital gain. The amount of capital gain dividends which may be paid for 1978 is limited to \$50,000, that is, the amount of the real estate investment trust taxable income for 1978, determined by taking into account the net operating loss deduction for the taxable year, but not the deduction for dividends paid (\$150,000 minus \$100,000). See \$1.857-6(e)(1)(ii).

(ii) X designated \$50,000 of the \$120,000 of dividends paid as capital gains dividends (as defined in section 857(b)(3)(C) and \$1.857-6(e)). Thus, \$70,000 is an ordinary dividend. Since both ordinary dividends and capital gains dividends are taken into account in computing the deduction for dividends paid under section 857(b)(2)(B), the result will be the same as in *Example (1)*; that is, the portion of the 1977 net operating loss available as a carryover to 1979 and subsequent years is \$70.000.

(b) [Reserved]

[T.D. 6500, 25 FR 11402, Nov. 26, 1960, as amended by T.D. 6862, 30 FR 14428, Nov. 18, 1965; T.D. 6900, 31 FR 14641, Nov. 17, 1966; T.D. 7767, 46 FR 11263, Feb. 6, 1981; T.D. 8107, 51 FR 43346, Dec. 2, 1986]

§1.172-6 Illustration of net operating loss carrybacks and carryovers.

The application of §1.172-4 may be illustrated by the following example:

(a) Facts. The books of the taxpayer, whose return is made on the basis of the calendar year, reveal the following facts:

Internal Revenue Service, Treasury

Taxable year	Taxable income	Net oper- ating loss
1954	\$15,000	
1955	30,000	
1956		(\$75,000)
1957	20.000	, , ,
1958		(150,000)
1959	30.000	(,,
1960	35.000	
1961	75.000	
1962	17.000	
1963	53.000	
1303	55,000	

The taxable income thus shown is computed without any net operating loss deduction. The assumption is also made that none of the other modifications prescribed in \$1.172-5 apply. There are no net operating losses for 1950, 1951, 1952, 1953, 1964, 1965, or 1966.

- (b) Loss sustained in 1956. The portions of the \$75,000 net operating loss for 1956 which shall be used as carrybacks to 1954 and 1955 and as carryovers to 1957, 1958, 1959, 1960, and 1961 are computed as follows:
- (1) Carryback to 1954. The carryback to this year is \$75,000, that is, the amount of the net operating loss.
- (2) Carryback to 1955. The carryback to this year is \$60,000, computed as follows:

Net operating loss	\$75,000
Taxable income for 1954 (computed without the deduction of the carryback from 1956)	15,000
Carryback	60,000

(3) Carryover to 1957. The carryover to

this year is \$30,000, comp	uted as fol-
lows:	
Net operating loss	\$75,000
Less:	
Taxable income for 1954 (computed without the deduction of the carryback from 1956) \$ Taxable income for 1955 (computed without the deduction of the carryback from 1956 or the	:15,000
carryback from 1958)	30,000
_	45,000
Carryover	30,000

(4) Carryover to 1958. The carryover to this year is \$10,000, computed as fol-

lows:		
Net operating loss		\$75,000
Less:		
Taxable income for 1954 (com-		
puted without the deduction of		
the carryback from 1956)	\$15,000	
Taxable income for 1955 (com-		
puted without the deduction of		
the carryback from 1956 or the		
carryback from 1958)	30,000	

Taxable income for 1957 (computed without the deduction of the carryover from 1956 or the carryback from 1958)	20,000	
		65,000
Carryover		10,000

(5) Carryover to 1959. The carryover to this year is \$10,000, computed as follows:

Net operating lossLess:		\$75,000
Taxable income for 1954 (computed without the deduction of the carryback from 1956) Taxable income for 1955 (computed without the deduction of	\$15,000	
the carryback from 1956 or the carryback from 1958)	30,000	
the carryover from 1956 or the carryback from 1958) Taxable income for 1958 (a year in which a net operating loss	20,000	
was sustained)		65,000
Carryover		10.000

(6) Carryover to 1960. The carryover to this year is \$0, computed as follows:

t operating loss		\$75,000
SS:		
Taxable income for 1954 (computed without the deduction of the carryback from 1956)	\$15,000	
Taxable income for 1955 (computed without the deduction of the carryback from 1956 or the		
carryback from 1958)	30,000	
Taxable income for 1957 (com-		
puted without the deduction of		
the carryover from 1956 or the		
carryback from 1958)	20,000	
Taxable income for 1958 (a year		
in which a net operating loss		
was sustained)	0	
Taxable income for 1959 (com-		
puted without the deduction of		
the carryover from 1956 or the		
carryover from 1958)	30,000	
		95,000
Carryover		0

(7) Carryover to 1961. The carryover to this year is \$0, computed as follows:

Net operating loss		\$75,000
Less:		
Taxable income for 1954 (computed without the deduction of the carryback from 1956)	\$15,000	
Taxable income for 1955 (computed without the deduction of the carryback from 1956 or the		
carryback from 1958)	30,000	
Taxable income for 1957 (computed without the deduction of the carryover from 1956 or the		
carryback from 1958)	20.000	

§ 1.172–6

Taxable income for 1958 (a year	Taxable income for 1957 (the	
in which a net operating loss	\$20,000 taxable income for	
was sustained) 0	such year reduced by the car-	
Taxable income for 1959 (com-	ryover to such year of \$30,000	
puted without the deduction of	from 1956, the carryback from	
the carryover from 1956 or the carryover from 1958)	1958 to 1957 not being taken	•
carryover from 1958)	into account)	0
puted without the deduction of		0
the carryover from 1956 or the	Commence	450,000
carryover from 1958)	Carryover	150,000
——————————————————————————————————————	(5) Carryover to 1960. The ca	rryover to
	(5) Carryover to 1960. The ca	
Carryover 0	this year is \$130,000, compu	ted as fol-
	lows:	
(c) Loss sustained in 1958. The portions	Net operating loss	\$150,000
f the \$150,000 net operating loss for	Less:	ψ100,000
958 which shall be used as carrybacks	Taxable income for 1955 (the	
	\$30,000 taxable income for	
o 1955, 1956, and 1957 and as carryovers	such year reduced by the	
o 1959, 1960, 1961, 1962, and 1963 are	carryback to such year of	
omputed as follows:	\$60,000 from 1956, the	
(1) Carryback to 1955. The carryback	carryback from 1958 to 1955	
	not being taken into account)	0
o this year is \$150,000, that is, the		· ·
mount of the net operating loss.	Taxable income for 1956 (a year in which a net operating loss	
(2) Carryback to 1956. The carryback		0
	was sustained)	U
o this year is \$150,000, computed as fol-	Taxable income for 1957 (the	
OWS:	\$20,000 taxable income for	
et operating loss \$150,000	such year reduced by the car-	
ess:	ryover to such year of \$30,000	
Taxable income for 1955 (the \$30,000 tax-	from 1956, the carryback from	
able income for such year reduced by the	1958 to 1957 not being taken	0
carryback to such year of \$60,000 from	into account)	0
1956, the carryback from 1958 to 1955 not	Taxable income for 1959 (the	
being taken into account) 0	\$30,000 taxable income for	
	such year reduced by the car-	
Carryback 150,000	ryover to such year of \$10,000	
(0) C 1 1 1 1077 TT	from 1956, the carryover from	
(3) Carryback to 1957. The carryback	1958 to 1959 not being taken	000
o this year is \$150,000, computed as fol-	into account)\$20	,000
ows:		
	Carryovor	130,000
et operating loss\$150,000	Carryover	130,000
ess: Taxable income for 1955 (the	(6) Carryover to 1961. The ca	rryover to
\$30,000 taxable income for		
such year reduced by the	this year is \$95,000, comput	eu as ioi-
carryback to such year of	lows:	
\$60,000 from 1956, the	Net operating loss	\$150,000
carryback from 1958 to 1955	Less:	******
not being taken into account) 0	Taxable income for 1955 (the	
Taxable income for 1956 (a year	\$30,000 taxable income for	
in which a net operating loss	such year reduced by the	
was sustained) 0	carryback to such year of	
0	\$60,000 from 1956, the	
	carryback from 1958 to 1955	
Carryback 150,000	not being taken into account)	0
	Taxable income for 1956 (a year	•
(4) Carryover to 1959. The carryover to	in which a net operating loss	
his year is \$150,000, computed as fol-		0
•		U
ows:	was sustained)	
	Taxable income for 1957 (the	
et operating loss \$150,000	Taxable income for 1957 (the \$20,000 taxable income for	
et operating loss	Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the car-	
ess:	Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000	
ess: Taxable income for 1955 (the	Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from	
Taxable income for 1955 (the \$30,000 taxable income for	Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from 1958 to 1957 not being taken	0
ess: Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the	Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from 1958 to 1957 not being taken into account)	0
ess: Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of	Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from 1958 to 1957 not being taken into account)	0
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the	Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from 1958 to 1957 not being taken into account)	0
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955	Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from 1958 to 1957 not being taken into account)	0
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not being taken into account) 0	Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from 1958 to 1957 not being taken into account)	0
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not being taken into account) Taxable income for 1956 (a year	Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from 1958 to 1957 not being taken into account)	0
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not being taken into account) 0	Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from 1958 to 1957 not being taken into account)	0

Taxable income for 1960 (the \$35,000 taxable income for such year reduced by the carryover to such year of \$0 from 1956, the carryover from 1958			this Net ope Less:	Carryon year is erating loss	\$3,000,	comput	ed as fo	
to 1960 not being taken into	5,000	55,000	9	kable incor 330,000 ta such year sarryback	xable inco reduced	me for by the		
Carryover		95,000	9	660,000 f arryback fi	rom 1958 rom 1958	6, the to 1955		
(7) Carryover to 1962. The ca	arry	over to		not being ta			0	
this year is \$20,000, comput lows:	ted	as fol-	i V	kable incom n which a vas sustain	net operati ed)	ng loss	0	
Net operating loss		\$150,000		kable incor 320,000 ta				
Less: Taxable income for 1955 (the				such year re				
\$30,000 taxable income for				yover to su				
such year reduced by the				rom 1956, 958 to 195				
carryback to such year of				nto account			0	
\$60,000 from 1956, the carryback from 1958 to 1955				kable incor			-	
not being taken into account)	0			30,000 ta				
Taxable income for 1956 (a year				such year re yover to su				
in which a net operating loss				yover to su rom 1956,				
was sustained) Taxable income for 1957 (the	0			958 to 195				
\$20,000 taxable income for			_ i	nto account)		\$20,000	
such year reduced by the car-				kable incor 35,000 ta				
ryover to such year of \$30,000				such year re				
from 1956, the carryback from 1958 to 1957 not being taken				yover to su				
into account)	0			956, the ca				
Taxable income for 1959 (the				o 1960 no account)			35,000	
\$30,000 taxable income for				kable incor			00,000	
such year reduced by the car- ryover to such year of \$10,000			5	375,000 ta	xable inco	me for		
from 1956, the carryover from				such year re				
1958 to 1959 not being taken				yover to su 1956, the ca				
	0,000			o 1961 no				
Taxable income for 1960 (the \$35,000 taxable income for			á	account)			75,000	
such year reduced by the car-				kable incon				
ryover to such year of \$0 from				outed withou he carryove			17,000	
1956, the carryover from 1958						o,		147,000
to 1960 not being taken into account)	5,000			_			-	
Taxable income for 1961 (the	,,000			Carryover				3,000
\$75,000 taxable income for			(d)	Determ	ination	of net	operati	ng loss
such year reduced by the car-				ction fo				
ryover to such year of \$0 from 1956, the carryover from 1958			and	carryba	icks co	mputed	l under	para-
to 1961 not being taken into			grap	hs (Ď) a	and (c)	of thi	s section	on are
account) 75	5,000	400		as a ba				
		130,000	the r	iet opei	rating l	oss ded	luction	in the
Carryover		20,000		wing m				
				Carry	over/	Carry	/back	Net op-
Taxable year				From 1956	From 1958	From 1956	From 1958	erating loss de- duction
1954				\$0	\$0	\$75,000	\$0	\$75,000
1955				0	0	60,000	150,000	210,000
1957				30,000	0	0	150,000	180,000
1959				10,000	150,000	0	0	160,000
1960 1961				0	130,000 95,000	0	0	130,000 95,000
1962				0	20,000	0	0	20,000
1963				0	3,000	0	0	3,000